

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|  |                                 |   |                   |
|--|---------------------------------|---|-------------------|
| Local Government Type:<br><input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                                 | Local Government Name:<br><u>CITY OF BUCHANAN</u>               | County<br>BERRIEN |
| Audit Date<br>June 30, 2004  | Opinion Date<br>October 8, 2004 | Date Accountant Report Submitted To State:<br>December 27, 2004 |                   |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

| We have enclosed the following:                                     | Enclosed                            | To Be Forwarded          | Not Required                        |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations.                         | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU).                                       | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

|   |                      |             |              |
|---|----------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>                                    |                      |             |              |
| Street Address<br>511 Renaissance Drive, Suite 120  | City<br>Saint Joseph | State<br>MI | ZIP<br>49085 |
| Accountant Signature<br> |                      |             |              |

# **City of Buchanan, Michigan**

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**Financial Report**

**with Additional Information**

**June 30, 2004**

# City of Buchanan

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## Independent Auditor's Report

To the City Council  
City of Buchanan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buchanan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Buchanan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buchanan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Buchanan, Michigan

The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buchanan's basic financial statements. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Plante & Moran, PLLC*

October 8, 2004

Our discussion and analysis of the City of Buchanan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in the discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- The City's total net assets decreased by \$174,000. The decrease in State Shared Revenue and Water & Sewer Revenue collected are major contributors to the net asset decrease.
- Net assets for component units increased by \$363,000. The main reason for this increase was continued revenue growth and sale of assets.
- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$75,828 this year and \$166,412 since 2002. The City reacted by reducing operationally budgeted items as well as capital expenditures.
- Undesignated General Fund fund balance increased by approximately \$37,000.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Buchanan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004. In future years, when prior year information is available, comparative data will be presented.

|                              | Governmental<br>Activities | Business-type<br>Activities | Total                |
|------------------------------|----------------------------|-----------------------------|----------------------|
| Current assets               | \$ 3,745,965               | \$ 786,468                  | \$ 4,532,433         |
| Noncurrent assets            | <u>6,168,597</u>           | <u>4,733,687</u>            | <u>10,902,284</u>    |
| Total assets                 | 9,914,562                  | 5,520,155                   | 15,434,717           |
| Current liabilities          | 249,320                    | 103,793                     | 353,113              |
| Long-term liabilities        | <u>1,106,253</u>           | <u>1,464,049</u>            | <u>2,570,302</u>     |
| Total liabilities            | 1,355,573                  | 1,567,842                   | 2,923,415            |
| Net assets:                  |                            |                             |                      |
| Invested in capital assets - |                            |                             |                      |
| Net of related debt          | 5,155,526                  | 3,274,547                   | 8,430,073            |
| Restricted                   | 979,482                    | 598,669                     | 1,578,151            |
| Unrestricted (deficit)       | <u>2,423,981</u>           | <u>79,097</u>               | <u>2,503,078</u>     |
| Total net assets             | <u>\$ 8,558,989</u>        | <u>\$ 3,952,313</u>         | <u>\$ 12,511,302</u> |

Despite governmental net assets decreasing approximately \$70,000 and business-type net assets decreasing approximately \$100,000 during the fiscal year ended June 30, 2004, the City's overall financial health remains strong. The City has been able to pursue projects as planned and budgeted.

# City of Buchanan

## Management's Discussion and Analysis (Continued)

The following table shows, in a condensed format, the changes of the net assets during the current year. In future years, when prior year information is available, comparative data will be presented.

|                                    | Governmental<br>Activities | Business-type<br>Activities | Total               |
|------------------------------------|----------------------------|-----------------------------|---------------------|
| <b>Revenue</b>                     |                            |                             |                     |
| Program revenue:                   |                            |                             |                     |
| Charges for services               | \$ 84,550                  | \$ 1,021,075                | \$ 1,105,625        |
| Operating grants and contributions | 615,462                    | -                           | 615,462             |
| Capital grants and contributions   | 143,414                    | 46,881                      | 190,295             |
| General revenue:                   |                            |                             |                     |
| Property taxes                     | 1,267,655                  | -                           | 1,267,655           |
| State-shared revenue               | 695,527                    | -                           | 695,527             |
| Unrestricted investment earnings   | 54,249                     | 8,208                       | 62,457              |
| Miscellaneous                      | 194,854                    | -                           | 194,854             |
| Transfers and other revenue        | (21,605)                   | 21,605                      | -                   |
| Total revenue                      | 3,034,106                  | 1,097,769                   | 4,131,875           |
| <b>Program Expenses</b>            |                            |                             |                     |
| General government                 | 838,943                    | -                           | 838,943             |
| Public safety                      | 882,350                    | -                           | 882,350             |
| Public works                       | 978,003                    | -                           | 978,003             |
| Health and welfare                 | 47,140                     | -                           | 47,140              |
| Community and economic development | 303,206                    | -                           | 303,206             |
| Interest on long-term debt         | 55,994                     | -                           | 55,994              |
| Water and sewer                    | -                          | 1,200,098                   | 1,200,098           |
| Total program expenses             | 3,105,636                  | 1,200,098                   | 4,305,734           |
| <b>Change in Net Assets</b>        | <b>\$ (71,530)</b>         | <b>\$ (102,329)</b>         | <b>\$ (173,859)</b> |

# City of Buchanan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

- The City spent \$467,658 on street improvement projects including S. Days Avenue, Moccasin St. and Chippewa St.
- A Cemetery expansion & improvement project at Oak Ridge Cemetery was completed for \$63,013
- The City spent \$121,977 on capital assets related to downtown streetscape improvements on Days Ave. and Front St.

### Business-type Activities

The Water and Sewer fund incurred a \$95,000 loss from operations. On a cash basis, the fund lost approximately \$10,000, however funding for replacement of capital did not occur. The City Commission authorized a rate study to be conducted for implementation in the 2005-06 budget.

### Component Units

Component units include funds such as the Downtown Development Corporation, Andrews Farm TIFA and DDA TIFA, and Brownfield Redevelopment funds.

A significant activity was the sale of the "Carbon Building" at 324 E. Dewey St. by the DDA. This is shown as a notes receivable in the Statement of Net Assets. The building was sold for \$200,000.

### General Fund Budgetary Highlights

The General Fund pays for most of the City's governmental services. The primary services provided include police and fire services, administrative services, public services and parks and recreation.

As shown in the required supplemental information, the City originally budgeted operational expenditures of \$1,998,423. During the course of the year, the City amended the budget and budgeted expenditures of \$2,879,392. Actual operating results ended up as a deficit of \$360,134. The significant budget to actual differences were a result of the following:

- State Shared Revenue decreased by \$75,828 from prior year
- Property tax revenue increased at a healthy 6.3% rate over prior year
- \$292,251 was expended on the South Days Street Project
- \$53,430 was expended on repaving Moccasin St. and Chippewa St.
- The City spent \$121, 977 on capital assets related to downtown streetscape improvements on Days Ave. and Front St.

# City of Buchanan

## Management's Discussion and Analysis (Continued)

### Capital Asset and Debt Administration

The City continued making payments on revenue and general obligation bonds incurred to construct major capital related to infrastructure. A significant activity was the forgiving of interest by the State of Michigan on a CDBG loan. This will save approximately \$125,361 over the next 14 years.

### Economic Factors and Next Year's Budgets and Rates

The City's budget for next fiscal year reflects another decrease in Stated Shared Revenue. Current economic conditions in the State of Michigan have put statutory revenue sharing at risk of being reduced. The Commission has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services.

The City will finalize two significant grant projects in the next fiscal year. The first is a grant from the Michigan Economic Development Corporation to assist with the construction of a new streetscape on Front St. This project is expected to enhance development opportunities for the downtown. The second grant, received from the Michigan State Housing Development Authority, is for 6 downtown upper-level apartments. It is anticipated that these two projects along with other planned activities will increase the economic development within the downtown.

The City also has planned a number of other projects including repaving Main Street, constructing Phase I of McCoy's Creek Trail, paving the Salt Shed floor, refurbishing a fire truck, installing a new computer network and constructing a farmers' market.

### Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City Manager's office.

# City of Buchanan

## Statement of Net Assets June 30, 2004

|  | Primary Government  |                     |                      | Component         |
|--|---------------------|---------------------|----------------------|-------------------|
|  | Governmental        | Business-type       |                      | Units             |
|  | Activities          | Activities          | Total                |                   |
| <b>Assets</b>                                    |                     |                     |                      |                   |
| Cash and cash equivalents (Note 3)               | \$ 100,514          | \$ -                | \$ 100,514           | 50,596            |
| Investments (Note 3)                             | 3,323,370           | -                   | 3,323,370            | 964,788           |
| Receivables - Net (Note 4)                       |                     |                     |                      |                   |
| Taxes  | 157,179             | -                   | 157,179              | 1,159             |
| Customers  | -                   | 154,831             | 154,831              | 11,667            |
| Other  | 2,279               | -                   | 2,279                | -                 |
| Due from other governmental units                | 162,623             | -                   | 162,623              | 6,713             |
| Prepaid costs and other assets                   | -                   | 32,968              | 32,968               | -                 |
| Notes receivable                                 | -                   | -                   | -                    | 179,077           |
| Restricted assets - unspent bond proceeds        | -                   | 598,669             | 598,669              | -                 |
| Capital assets - Net (Note 5)                    | 6,168,597           | 4,733,687           | 10,902,284           | -                 |
| Total assets                                     | 9,914,562           | 5,520,155           | 15,434,717           | 1,214,000         |
| <b>Liabilities</b>                               |                     |                     |                      |                   |
| Accounts payable                                 | 170,750             | 12,706              | 183,456              | 16,821            |
| Accrued and other liabilities                    | 72,232              | 24,045              | 96,277               | 322               |
| Customer deposits                                |                     | 40,092              | 40,092               | -                 |
| Capital leases (Note 7):                         |                     |                     |                      |                   |
| Due within one year                              | 6,338               | 26,950              | 33,288               | -                 |
| Due in more than one year                        | 6,733               | 57,190              | 63,923               | -                 |
| Noncurrent liabilities (Note 8):                 |                     |                     |                      |                   |
| Due within one year                              | 70,000              | 70,000              | 140,000              | 26,428            |
| Due in more than one year                        | 930,000             | 1,305,000           | 2,235,000            | 237,853           |
| Accrued employee benefits                        | 99,520              | 31,859              | 131,379              | -                 |
| Total liabilities                                | 1,355,573           | 1,567,842           | 2,923,415            | 281,424           |
| <b>Net Assets</b>                                |                     |                     |                      |                   |
| Invested in capital assets - Net of related debt | 5,155,526           | 3,274,547           | 8,430,073            | -                 |
| Restricted:                                      |                     |                     |                      |                   |
| Streets  | 562,101             | -                   | 562,101              | -                 |
| Debt service                                     | 12,435              | 598,669             | 611,104              | -                 |
| Cemetery perpetual care                          | 306,465             | -                   | 306,465              | -                 |
| Other  | 98,481              | -                   | 98,481               | -                 |
| Unrestricted                                     | 2,423,981           | 79,097              | 2,503,078            | 932,576           |
| Total net assets                                 | <u>\$ 8,558,989</u> | <u>\$ 3,952,313</u> | <u>\$ 12,511,302</u> | <u>\$ 932,576</u> |

# City of Buchanan

|   |                     | Program Revenues     |                                    |                                  |
|---|---------------------|----------------------|------------------------------------|----------------------------------|
|   | Expenses            | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs                                  |                     |                      |                                    |                                  |
| Primary government:                                 |                     |                      |                                    |                                  |
| Governmental activities:                            |                     |                      |                                    |                                  |
| General government                                  | \$ 838,943          | \$ 83,800            | \$ 60,360                          | \$ 143,414                       |
| Public safety                                       | 882,350             | -                    | -                                  | -                                |
| Public works  | 978,003             | -                    | 374,286                            | -                                |
| Recreation and culture                              | 47,140              | 750                  | -                                  | -                                |
| Community economic and development                  | 303,206             | -                    | 180,816                            | -                                |
| Interest on long-term debt                          | 55,994              | -                    | -                                  | -                                |
| Total governmental activities                       | 3,105,636           | 84,550               | 615,462                            | 143,414                          |
| Business-type activities                            |                     |                      |                                    |                                  |
| Water & sewer                                       | 1,200,098           | 1,021,075            | -                                  | 46,881                           |
| Total primary government                            | <u>\$ 4,305,734</u> | <u>\$ 1,105,625</u>  | <u>\$ 615,462</u>                  | <u>\$ 190,295</u>                |
| Component units:                                    |                     |                      |                                    |                                  |
| TIFA Andrews Farm                                   | \$ 15,056           | \$ -                 | \$ -                               | \$ -                             |
| TIFA Downtown Development Authority                 | 1,690               | -                    | -                                  | -                                |
| Downtown Development Authority                      | 39,586              | -                    | 203,736                            | -                                |
| Brownfield Redevelopment Authority                  | 39,342              | -                    | -                                  | -                                |
| Dial-A-Ride   | 124,594             | 11,735               | 65,937                             | -                                |
| Total component units                               | <u>\$ 220,268</u>   | <u>\$ 11,735</u>     | <u>\$ 269,673</u>                  | <u>\$ -</u>                      |
| General revenues:                                   |                     |                      |                                    |                                  |
| Property taxes                                      |                     |                      |                                    |                                  |
| State-shared revenues                               |                     |                      |                                    |                                  |
| Unrestricted investment earnings                    |                     |                      |                                    |                                  |
| Miscellaneous                                       |                     |                      |                                    |                                  |
| Transfers   |                     |                      |                                    |                                  |
| Total general revenues, special items and transfers |                     |                      |                                    |                                  |
| Change in Net Assets                                |                     |                      |                                    |                                  |
| Net Assets - Beginning of year                      |                     |                      |                                    |                                  |
| Net Assets - End of year                            |                     |                      |                                    |                                  |

**Statement of Activities**  
**Year Ended June 30, 2004**

| Net (Expense) Revenue and Changes in Net Assets |                             |                       |                    |
|---|-----------------------------|-----------------------|--------------------|
| Primary Government                              |                             |                       | Component<br>Units |
| Governmental<br>Activities                      | Business-type<br>Activities | Total                 |                    |
| \$ (551,369)                                    | \$ -                        | \$ (551,369)          | \$ -               |
| (882,350)                                       | -                           | (882,350)             | -                  |
| (603,717)                                       | -                           | (603,717)             | -                  |
| (46,390)  | -                           | (46,390)              | -                  |
| (122,390)                                       | -                           | (122,390)             | -                  |
| (55,994)  | -                           | (55,994)              | -                  |
| (2,262,210)                                     | -                           | (2,262,210)           | -                  |
| -   | (132,142)                   | (132,142)             | -                  |
| <b>\$ (2,262,210)</b>                           | <b>\$ (132,142)</b>         | <b>\$ (2,394,352)</b> | <b>\$ -</b>        |
| \$ -  | \$ -                        | \$ -                  | \$ (15,056)        |
|   |                             |                       | (1,690)            |
|   |                             |                       | 164,150            |
| -   | -                           | -                     | (39,342)           |
| -   | -                           | -                     | (46,922)           |
| <b>\$ -</b>                                     | <b>\$ -</b>                 | <b>\$ -</b>           | <b>\$ 61,140</b>   |
| \$ 1,267,655                                    | \$ -                        | \$ 1,267,655          | \$ 138,154         |
| 695,527   | -                           | 695,527               | -                  |
| 54,249  | 8,208                       | 62,457                | 13,135             |
| 194,854   | -                           | 194,854               | 103,079            |
| (21,605)  | 21,605                      | -                     | 48,059             |
| 2,190,680                                       | 29,813                      | 2,220,493             | 302,427            |
| (71,530)  | (102,329)                   | (173,859)             | 363,567            |
| 8,630,519                                       | 4,054,642                   | 12,685,161            | 569,009            |
| <b>\$ 8,558,989</b>                             | <b>\$ 3,952,313</b>         | <b>\$ 12,511,302</b>  | <b>\$ 932,576</b>  |

# City of Buchanan

## Governmental Funds Balance Sheet June 30, 2004

|  | General             | Capital Projects  | Front Street -<br>Street Scape | Other Non-<br>major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-------------------|--------------------------------|--|--------------------------------|
| <b>Assets</b>                              |                     |                   |                                |  |                                |
| Cash                                       | \$ 44,961           | \$ 8,881          | \$ 1,480                       | \$ 45,192                                    | \$ 100,514                     |
| Investments                                | 1,505,626           | 890,593           | 31,078                         | 896,073                                      | 3,323,370                      |
| Receivables - Net                          |                     |                   |                                |  |                                |
| Taxes                                      | 10,430              | -                 | 143,064                        | 3,685  | 157,179                        |
| Customers                                  | -                   | -                 | -                              | -  | -                              |
| Other                                      | 2,279               | -                 | -                              | -  | 2,279                          |
| Prepaid costs and other assets             | -                   | -                 | -                              | -  | -                              |
| Due from other governmental units          | 83,725              | -                 | -                              | 78,898                                       | 162,623                        |
| Due from other funds                       | 77,764              | -                 | -                              | -  | 77,764                         |
| <b>Total assets</b>                        | <b>\$ 1,724,785</b> | <b>\$ 899,474</b> | <b>\$ 175,622</b>              | <b>\$ 1,023,848</b>                          | <b>\$ 3,823,729</b>            |
| <b>Liabilities and Fund Balances</b>       |                     |                   |                                |  |                                |
| <b>Liabilities</b>                         |                     |                   |                                |  |                                |
| Accounts payable                           | \$ 81,809           | \$ -              | \$ 68,639                      | \$ 20,302                                    | \$ 170,750                     |
| Accrued and other liabilities              | 38,338              | -                 | 27,285                         | 6,609  | 72,232                         |
| Due to other funds                         | -                   | -                 | 77,764                         | -  | 77,764                         |
| Deferred revenue                           | 10,429              | -                 | -                              | 17,455                                       | 27,884                         |
| <b>Total liabilities</b>                   | <b>130,576</b>      | <b>-</b>          | <b>173,688</b>                 | <b>44,366</b>                                | <b>348,630</b>                 |
| <b>Fund Balances</b>                       |                     |                   |                                |  |                                |
| Reserved                                   | 519,773             | -                 | -                              | 12,435                                       | 532,208                        |
| Unreserved, reported in:                   |                     |                   |                                |  |                                |
| General Fund                               | 1,074,436           | -                 | -                              | -  | 1,074,436                      |
| Special Revenue Funds                      | -                   | -                 | 1,934                          | 660,582                                      | 662,516                        |
| Capital Projects Funds                     | -                   | 899,474           | -                              | -  | 899,474                        |
| Permanent Funds                            | -                   | -                 | -                              | 306,465                                      | 306,465                        |
| <b>Total fund balances</b>                 | <b>1,594,209</b>    | <b>899,474</b>    | <b>1,934</b>                   | <b>979,482</b>                               | <b>3,475,099</b>               |
| <b>Total liabilities and fund balances</b> | <b>\$ 1,724,785</b> | <b>\$ 899,474</b> | <b>\$ 175,622</b>              | <b>\$ 1,023,848</b>                          | <b>\$ 3,823,729</b>            |

Amounts reported for governmental activities in the statement of net assets are different because:

|  |                     |
|--|---------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | \$ 6,168,597        |
| Deferred revenue not recorded on govt-wide F/S   | 27,884              |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds        | (1,112,591)         |
| <b>Net assets of governmental activities</b>   | <b>\$ 8,558,989</b> |

The Notes to Financial Statements are  
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# City of Buchanan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

|   | General             | Capital Projects  | Front Street -<br>Street Scape | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|-------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>Revenue</b>  |                     |                   |                                |                                |                                |
| Property taxes  | \$ 987,271          | \$ -              | \$ -                           | \$ 278,752                     | \$ 1,266,023                   |
| Licenses and permits  | 60,360              | -                 | -                              | -                              | 60,360                         |
| Federal grants  | -                   | -                 | 143,414                        | 180,272                        | 323,686                        |
| State-shared revenues (and grants)  | 695,527             | -                 | -                              | 374,286                        | 1,069,813                      |
| Charges for services  | 74,295              | -                 | -                              | -                              | 74,295                         |
| Fines and forfeitures   | 3,963               | -                 | -                              | -                              | 3,963                          |
| Interest and rentals  | 30,890              | 10,792            | 1,260                          | 11,697                         | 54,639                         |
| Other   | 105,907             | 750               | -                              | 125,324                        | 231,981                        |
| Total revenue   | 1,958,213           | 11,542            | 144,674                        | 970,331                        | 3,084,760                      |
| <b>Expenditures</b>   |                     |                   |                                |                                |                                |
| General government  | 951,546             | -                 | -                              | -                              | 951,546                        |
| Public safety   | 865,721             | -                 | -                              | -                              | 865,721                        |
| Highways and streets  | -                   | -                 | -                              | 361,344                        |                                |
| Public works  | 384,671             | -                 | -                              | 42,859                         | 427,530                        |
| Recreation and culture  | 39,804              | -                 | -                              | -                              | 39,804                         |
| Other   | -                   | 20,199            | 204,965                        | 358,509                        | 583,673                        |
| Debt service  | -                   | -                 | -                              | 120,994                        | 120,994                        |
| Total expenditures  | 2,241,742           | 20,199            | 204,965                        | 883,706                        | 3,350,612                      |
| <b>Excess of Revenue Over (Under) Expenditures</b>  | (283,529)           | (8,657)           | (60,291)                       | 86,625                         | (265,852)                      |
| <b>Other Financing Sources (Uses)</b>   |                     |                   |                                |                                |                                |
| Capital lease financing   | 21,464              | -                 | -                              | -                              | 21,464                         |
| Transfers in  | 9,872               | 107,941           | -                              | 358,321                        | 476,134                        |
| Transfers out   | (107,941)           | -                 | -                              | (389,798)                      | (497,739)                      |
| Total other financing sources (uses)  | (76,605)            | 107,941           | -                              | (31,477)                       | (141)                          |
| <b>Excess of Revenue and Other Financing<br/>Sources Over (Under) Expenditures<br/>and Other Uses</b> | (360,134)           | 99,284            | (60,291)                       | 55,148                         | (265,993)                      |
| <b>Fund Balances - Beginning of year</b>  | 1,954,343           | 800,190           | 62,225                         | 924,334                        | 3,741,092                      |
| <b>Fund Balances - End of year</b>  | <u>\$ 1,594,209</u> | <u>\$ 899,474</u> | <u>\$ 1,934</u>                | <u>\$ 979,482</u>              | <u>\$ 3,475,099</u>            |

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# City of Buchanan

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

|   |    |           |
|---|----|-----------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b> | \$ | (265,993) |
|---|----|-----------|

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation

|   |  |           |
|---|--|-----------|
| Current year capital additions          |  | 725,522   |
| Current year allocation of depreciation |  | (558,779) |

|  |  |          |
|--|--|----------|
| Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) |  | (29,049) |
|--|--|----------|

|   |  |        |
|---|--|--------|
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) |  | 72,155 |
|---|--|--------|

|   |  |          |
|---|--|----------|
| Proceeds from issuance of debt is a revenue in the governmental funds, but not in the statement of activities |  | (21,464) |
|---|--|----------|

|  |  |       |
|--|--|-------|
| Decrease in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities |  | 6,078 |
|--|--|-------|

|  |           |                        |
|--|-----------|------------------------|
| <b>Change in Net Assets of Governmental Activities</b> | <b>\$</b> | <b><u>(71,530)</u></b> |
|--|-----------|------------------------|

# City of Buchanan

## Proprietary Funds Statement of Net Assets June 30, 2004

|  | Water and<br>Sewer         |
|--|----------------------------|
| <b>Assets</b>                                      |                            |
| Current assets:                                    |                            |
| Receivables - Net                                  | \$ 154,831                 |
| Noncurrent assets:                                 |                            |
| Restricted assets:                                 |                            |
| Cash and cash equivalents                          | 33,781                     |
| Investments  | 564,888                    |
| Capital assets                                     | 4,733,687                  |
| Other assets                                       | <u>32,968</u>              |
| Total noncurrent assets                            | <u>5,365,324</u>           |
| Total assets                                       | 5,520,155                  |
| <b>Liabilities</b>                                 |                            |
| Current liabilities:                               |                            |
| Accounts payable                                   | 12,706                     |
| Accrued and other liabilities                      | 24,045                     |
| Customer deposits                                  | 40,092                     |
| Current portion of long-term debt                  | <u>96,950</u>              |
| Total current liabilities                          | 173,793                    |
| <b>Long-term debt</b> - Net of current portion     | <u>1,394,049</u>           |
| Total noncurrent liabilities                       | <u>1,394,049</u>           |
| Total liabilities                                  | 1,567,842                  |
| <b>Net Assets</b>                                  |                            |
| Investment in capital assets - Net of related debt | 3,242,688                  |
| Restricted   | 598,669                    |
| Unrestricted                                       | <u>110,956</u>             |
| Total net assets                                   | <u><b>\$ 3,952,313</b></u> |

The Notes to Financial Statements are an  
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# City of Buchanan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

|   | Water and<br>Sewer         |
|---|----------------------------|
| <b>Operating Revenue</b>                                  |                            |
| Charges for services:                                     |                            |
| Water   | \$ 272,786                 |
| Sewer   | 456,841                    |
| Ready to serve  | 236,233                    |
| Penalties   | 7,970                      |
| Other   | 47,245                     |
| Total operating revenue                                   | 1,021,075                  |
| <b>Operating Expenses</b>                                 |                            |
| Water   | 381,947                    |
| Sewer and industrial pre-treatment                        | 516,028                    |
| Depreciation and amortization                             | 218,332                    |
| Total operating expenses                                  | 1,116,307                  |
| <b>Operating Income (Loss)</b>                            | (95,232)                   |
| <b>Nonoperating Revenue (Expenses)</b>                    |                            |
| Investment income   | 8,208                      |
| Interest expense  | (83,791)                   |
| <b>Income (Loss) - Before contributions and transfers</b> | (170,815)                  |
| <b>Capital Contribution</b>                               | 46,881                     |
| <b>Transfers In</b>                                       | 21,605                     |
| <b>Change in Net Assets</b>                               | (102,329)                  |
| <b>Net Assets (Deficit) - Beginning of year</b>           | 4,054,642                  |
| <b>Net Assets (Deficit) - End of year</b>                 | <u><u>\$ 3,952,313</u></u> |

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# City of Buchanan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

|   | Enterprise -<br>Water and<br>Sewer |
|---|------------------------------------|
| <b>Cash Flows from Operating Activities</b>   |                                    |
| Receipts from customers   | \$ 1,029,602                       |
| Payments to suppliers   | (464,958)                          |
| Payments to employees   | <u>(445,861)</u>                   |
| Net cash provided by operating activities   | 118,783                            |
| <b>Cash Flows from Capital and Related Financing Activities</b>                         |                                    |
| Operating transfers from other funds  | 21,605                             |
| Purchase of capital assets  | (70,415)                           |
| Principal and interest paid on capital debt   | (204,800)                          |
| Capital contributions received  | <u>46,881</u>                      |
| Net cash used in capital and related financing activities                               | (206,729)                          |
| <b>Cash Flows from Investing Activities</b>   |                                    |
| Interest received on investments  | 8,208                              |
| Proceeds from sale and maturities of investment securities                              | <u>33,401</u>                      |
| Net cash provided by investing activities   | <u>41,609</u>                      |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                             | (46,337)                           |
| <b>Cash and Cash Equivalents - Beginning of year</b>                                    | <u>80,118</u>                      |
| <b>Cash and Cash Equivalents - End of year</b>  | <b><u>\$ 33,781</u></b>            |
| <b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>         |                                    |
| Operating loss  | \$ (95,232)                        |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: |                                    |
| Depreciation and amortization   | 218,332                            |
| Changes in assets and liabilities:  |                                    |
| Receivables   | 8,583                              |
| Accounts payable and accrued liabilities  | <u>(12,900)</u>                    |
| Net cash provided by operating activities   | <b><u>\$ 118,783</u></b>           |

# City of Buchanan

## Fiduciary Funds Statement of Net Assets June 30, 2004

|                                    | <u>Agency Funds</u>      |
|------------------------------------|--------------------------|
| <b>Assets</b>                      |                          |
| Cash and cash equivalents (Note 3) | \$ 56,839                |
| Investments (Note 3)               | <u>46,705</u>            |
| Total assets                       | 103,544                  |
| <b>Liabilities</b>                 |                          |
| Accounts payable                   | 56,595                   |
| Due to taxpayers                   | 46,373                   |
| Due to other governmental units    | 432                      |
| Other liabilities                  | <u>144</u>               |
| Total liabilities                  | <u><u>\$ 103,544</u></u> |

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# City of Buchanan

## Component Units Statement of Net Assets June 30, 2004

|                                   | TIFA Andrews Farm | TIFA Downtown Development Corporation | Downtown Development Corporation | Brownfield Redevelopment Authority | Dial-A-Ride      | Totals            |
|-----------------------------------|-------------------|---------------------------------------|----------------------------------|------------------------------------|------------------|-------------------|
| <b>Assets</b>                     |                   |                                       |                                  |                                    |                  |                   |
| Cash                              | \$ 5,459          | \$ 652                                | \$ 2,225                         | \$ 19,809                          | \$ 22,451        | \$ 50,596         |
| Investments                       | 644,040           | 139,621                               | 50,464                           | 86,141                             | 44,522           | 964,788           |
| Accounts receivable               | -                 | -                                     | 11,667                           | -                                  | -                | 11,667            |
| Taxes receivable                  | -                 | -                                     | -                                | -                                  | 1,159            | 1,159             |
| Due from other governmental units | -                 | -                                     | -                                | -                                  | 6,713            | 6,713             |
| Notes receivable                  | -                 | -                                     | 161,088                          | 17,989                             | -                | 179,077           |
| Total assets                      | 649,499           | 140,273                               | 225,444                          | 123,939                            | 74,845           | 1,214,000         |
| <b>Liabilities</b>                |                   |                                       |                                  |                                    |                  |                   |
| Accounts payable                  | 302               | 125                                   | 11                               | 4,697                              | 11,686           | 16,821            |
| Accrued and other liabilities     | 290               | 32                                    | -                                | -                                  | -                | 322               |
| Noncurrent liabilities            |                   |                                       |                                  |                                    |                  |                   |
| Due within one year               | -                 | -                                     | -                                | 26,428                             | -                | 26,428            |
| Due in more than one year         | -                 | -                                     | -                                | 237,853                            | -                | 237,853           |
| Total liabilities                 | 592               | 157                                   | 11                               | 268,978                            | 11,686           | 281,424           |
| <b>Net Assets</b>                 | <b>\$ 648,907</b> | <b>\$ 140,116</b>                     | <b>\$ 225,433</b>                | <b>\$ (145,039)</b>                | <b>\$ 63,159</b> | <b>\$ 932,576</b> |

The Notes to Financial Statements are an Integral Part of this Statement.

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# City of Buchanan

|  |                          | Program Revenues        |                                |
|--|--------------------------|-------------------------|--------------------------------|
|  | Expenses                 | Charges for Services    | Operating Grants/Contributions |
| TIFA - Andrews Farm - economic development                 | \$ 15,056                | \$ -                    | \$ -                           |
| TIFA Downtown Development Authority - economic development | 1,690                    | -                       | -                              |
| Downtown Development Authority - economic development      | 39,586                   | -                       | 203,736                        |
| Brownfield Redevelopment Authority - economic development  | 39,342                   | -                       | -                              |
| Dial-A-Ride - transportation                               | <u>124,594</u>           | <u>11,735</u>           | <u>65,937</u>                  |
| Total governmental activities                              | <u><b>\$ 220,268</b></u> | <u><b>\$ 11,735</b></u> | <u><b>\$ 269,673</b></u>       |

Property taxes

General revenues - Interest

Miscellaneous

Contributions (to) and from primary government

Total general revenues

## Change in Net Assets (Deficit)

**Net Assets** - Beginning of year

**Net Assets** - End of year

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**Component Units  
Statement of Activities  
Year Ended June 30, 2004**

| Net (Expense) Revenue and Changes in Net Assets |  |                                      |  |                    |                   |
|---|--|--------------------------------------|--|--------------------|-------------------|
| TIFA -<br>Andrews<br>Farm                       | TIFA<br>Downtown<br>Development<br>Authority | Downtown<br>Development<br>Authority | Brownfield<br>Redevelopment<br>Authority | Dial-A-Ride        | Total             |
| \$ (15,056)                                     |  |                                      |  |                    | \$ (15,056)       |
| -   | (1,690)                                      | -                                    | -  | -                  | (1,690)           |
| -   | -  | 164,150                              | -  | -                  | 164,150           |
| -   | -  | -                                    | (39,342)                                 | -                  | (39,342)          |
| -   | -  | -                                    | -  | (46,922)           | (46,922)          |
| <b>\$ (15,056)</b>                              | <b>\$ (1,690)</b>                            | <b>\$ 164,150</b>                    | <b>\$ (39,342)</b>                       | <b>\$ (46,922)</b> | <b>\$ 61,140</b>  |
| \$ 96,187                                       | \$ 1,177                                     | \$ -                                 | \$ 7,920                                 | \$ 32,870          | \$ 138,154        |
| 7,842   | 1,572  | 704                                  | 1,621                                    | 1,396              | 13,135            |
| -   | 100  | -                                    | 102,979                                  | -                  | 103,079           |
| (25,000)  | (5,000)                                      | 25,200                               | 52,859                                   | -                  | 48,059            |
| 79,029  | (2,151)                                      | 25,904                               | 165,379                                  | 34,266             | 302,427           |
| 63,973  | (3,841)                                      | 190,054                              | 126,037                                  | (12,656)           | 363,567           |
| 584,934   | 143,957                                      | 35,379                               | (271,076)                                | 75,815             | 569,009           |
| <b>\$ 648,907</b>                               | <b>\$ 140,116</b>                            | <b>\$ 225,433</b>                    | <b>\$ (145,039)</b>                      | <b>\$ 63,159</b>   | <b>\$ 932,576</b> |

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Buchanan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Buchanan:

#### **Reporting Entity**

The City of Buchanan is governed by an elected five-member commission. In accordance with accounting principles generally accepted in the United States of America, the accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

**Discretely Presented Component Units** – The following component units are reported within the component units column in the financial statements. They are reported in a separate column to emphasize that they are legally separate from the City of Buchanan.

- a. The Downtown Development Authority and TIFA were created to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The Authorities governing bodies, which consists of eight individuals each, is selected by the City Commission. In addition, the Authorities budgets are subject to approval by the City Commission.
- b. Andrews Farm TIFA was created to correct and prevent deterioration in the industrial park, encourage historical preservation and to promote economic growth within the industrial district. The Authority's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.
- c. Brownfield Redevelopment was created to clean up State of Michigan designated Brownfield sites within the City of Buchanan and prepare these sites for new development. The Authority's governing body, which consists of five individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.
- d. Dial-A-Ride was created to provide public transportation to local residents. Dial-A-Ride's budget is subject to approval by the City Commission.

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, for special assessments and federal grant reimbursements that will be collected after the period of availability, receivables have been recorded along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for assets being accumulated for future capital expenditures and other large projects.

The Front Street – Streetscape Fund is a special revenue fund that accounts for grant revenue restricted for the beautification of Front Street.

The City reports the following major proprietary fund: The Water and Sewer Fund is used to account for the provision services to citizens that are financed primarily by user charges for the provision of those services.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

The 2003 taxable valuation of the City totaled \$73.5 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 17.1000 mills for operating purposes and 0.5000 mills for the Dial-A-Ride Component Unit. This resulted in \$1.27 million for operating and \$33,000 for transportation services. These amounts are recognized in the respective General and Component Unit Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue and Enterprise Funds are generally allocated to each fund using a weighted average.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                                     |                |
|-------------------------------------|----------------|
| Roads and sidewalks                 | 20 years       |
| Water and sewer systems             | 15 to 75 years |
| Buildings and building improvements | 10 to 50 years |
| Machinery and equipment             | 3 to 15 years  |

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

|                                      |                     |
|--------------------------------------|---------------------|
| Surplus (shortfall) at July 1, 2003  | \$ (160,983)        |
| Current year building permit revenue | 13,366              |
| Related expenses:                    |                     |
| Direct costs                         | (37,835)            |
| Surplus (shortfall) at June 30, 2004 | <u>\$ (185,452)</u> |

### Note 3 - Deposits and

### Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated one bank for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in deposits and investment vehicles as authorized by Public Act 20 of 1943 (as amended).

The City of Buchanan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

|                           | Governmental<br>Activities | Business-type<br>Activities | Fiduciary<br>Funds | Total Primary<br>Government | Component<br>Units  |
|---------------------------|----------------------------|-----------------------------|--------------------|-----------------------------|---------------------|
| Cash and cash equivalents | \$ 100,514                 | \$ -                        | \$ 56,839          | \$ 157,353                  | \$ 50,596           |
| Investments               | 3,323,370                  | -                           | 46,705             | 3,370,075                   | 964,788             |
| Restricted assets         | -                          | 598,669                     | -                  | 598,669                     | -                   |
| Total                     | <u>\$ 3,423,884</u>        | <u>\$ 598,669</u>           | <u>\$ 103,544</u>  | <u>\$ 4,126,097</u>         | <u>\$ 1,015,384</u> |

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

|   | Primary<br>Government | Component<br>Units  |
|---|-----------------------|---------------------|
| Bank deposits (checking accounts, savings<br>accounts, and certificates of deposit) | \$ 190,809            | \$ 50,596           |
| Investments in securities, mutual funds, and<br>similar vehicles                    | 3,934,963             | 964,788             |
| Petty cash or cash on hand  | 325                   | -                   |
| Total   | <u>\$ 4,126,097</u>   | <u>\$ 1,015,384</u> |

#### Deposits

The bank balance of the City's deposits is \$461,127, of which \$100,000 is covered by federal depository insurance and \$361,127 was uninsured. The Component Unit deposits are uninsured.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

# City of Buchanan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

|                            | Category |      |              | Reported<br>Amount<br>(Fair Value) |
|----------------------------|----------|------|--------------|------------------------------------|
|                            | 1        | 2    | 3            |                                    |
| Primary government:        |          |      |              |                                    |
| U.S. government securities | \$ -     | \$ - | \$ 3,502,117 | \$ 3,502,117                       |
| Commercial paper           | -        | -    | 432,846      | 432,846                            |
| Total primary government   | -        | -    | 3,934,963    | 3,934,963                          |
| Component units - Bank     |          |      |              |                                    |
| U.S. government securities | -        | -    | 858,661      | 858,661                            |
| Commercial paper           | -        | -    | 106,127      | 106,127                            |
| Total component units      | -        | -    | 964,788      | 964,788                            |
|                            |          |      |              | <u>\$ 4,899,751</u>                |

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|                    | Governmental Funds |                             |                                     |                                |                   |                            | Component<br>Units |
|--------------------|--------------------|-----------------------------|-------------------------------------|--------------------------------|-------------------|----------------------------|--------------------|
|                    | General<br>Fund    | Capital<br>Projects<br>Fund | Front Street<br>Streetscape<br>Fund | Nonmajor<br>and Other<br>Funds | Total             | Water and<br>Sewer<br>Fund |                    |
| Receivables:       |                    |                             |                                     |                                |                   |                            |                    |
| Taxes              | \$ 10,430          | \$ -                        | \$ 143,064                          | \$ 3,685                       | \$ 157,179        | \$ -                       | \$ 1,159           |
| Interest and other | 2,279              | -                           | -                                   | -                              | 2,279             | -                          | 11,667             |
| Customers          | -                  | -                           | -                                   | -                              | -                 | 154,831                    | -                  |
| Net receivables    | <u>\$ 12,709</u>   | <u>\$ -</u>                 | <u>\$ 143,064</u>                   | <u>\$ 3,685</u>                | <u>\$ 159,458</u> | <u>\$ 154,831</u>          | <u>\$ 12,826</u>   |

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

| <b>Governmental Activities</b>        | Balance<br>July 1, 2003 | Reclassifications | Additions  | Disposals and<br>Adjustments | Balance<br>June 30, 2004 |
|---------------------------------------|-------------------------|-------------------|------------|------------------------------|--------------------------|
| Capital assets not being depreciated: |                         |                   |            |                              |                          |
| Land                                  | \$ 524,497              | \$ -              | \$ 38,721  | \$ -                         | \$ 563,218               |
| Construction in progress              | -                       | -                 | 371,903    | -                            | 371,903                  |
| Subtotal                              | 524,497                 | -                 | 410,624    | -                            | 935,121                  |
| Capital assets being depreciated:     |                         |                   |            |                              |                          |
| Roads and sidewalks                   | 8,573,825               | -                 | 221,741    | -                            | 8,795,566                |
| Buildings and improvements            | 1,387,428               | -                 | 9,880      | -                            | 1,397,308                |
| Vehicles                              | 1,429,816               | -                 | 47,753     | -                            | 1,477,569                |
| Machinery and equipment               | 460,728                 | -                 | 23,937     | -                            | 484,665                  |
| Office furnishings and equipment      | 34,450                  | -                 | 11,587     | -                            | 46,037                   |
| Subtotal                              | 11,886,247              | -                 | 314,898    | -                            | 12,201,145               |
| Accumulated depreciation:             |                         |                   |            |                              |                          |
| Roads and sidewalks                   | 4,099,923               | -                 | 390,349    | -                            | 4,490,272                |
| Buildings and improvements            | 946,258                 | -                 | 39,312     | -                            | 985,570                  |
| Vehicles                              | 940,047                 | -                 | 95,622     | -                            | 1,035,669                |
| Machinery and equipment               | 391,739                 | -                 | 27,819     | -                            | 419,558                  |
| Office furnishings and equipment      | 30,923                  | -                 | 5,677      | -                            | 36,600                   |
| Subtotal                              | 6,408,890               | -                 | 558,779    | -                            | 6,967,669                |
| Net capital assets being depreciated  | 5,477,357               | -                 | (243,881)  | -                            | 5,233,476                |
| Net capital assets                    | \$ 6,001,854            | \$ -              | \$ 166,743 | \$ -                         | \$ 6,168,597             |

### Note 5 - Capital Assets (Continued)

| <b>Business-type Activities</b>       | Balance<br>July 1, 2003 | Reclassifications | Additions    | Disposals and<br>Adjustments | Balance<br>June 30, 2004 |
|---------------------------------------|-------------------------|-------------------|--------------|------------------------------|--------------------------|
| Capital assets not being depreciated: |                         |                   |              |                              |                          |
| Land                                  | \$ 9,971                | \$ -              | \$ -         | \$ -                         | \$ 9,971                 |
| Capital assets being depreciated:     |                         |                   |              |                              |                          |
| Water and sewer distribution systems  | 4,784,382               | -                 | 46,880       | -                            | 4,831,262                |
| Buildings and building improvements   | 2,243,450               | -                 | -            | -                            | 2,243,450                |
| Machinery and equipment               | 688,811                 | -                 | 23,535       | -                            | 712,346                  |
| Subtotal                              | 7,716,643               | -                 | 70,415       | -                            | 7,787,058                |
| Accumulated depreciation:             |                         |                   |              |                              |                          |
| Water and sewer distribution systems  | 1,040,820               | -                 | 107,265      | -                            | 1,148,085                |
| Buildings and building improvements   | 1,359,164               | -                 | 42,828       | -                            | 1,401,992                |
| Machinery and equipment               | 447,970                 | -                 | 65,295       | -                            | 513,265                  |
| Subtotal                              | 2,847,954               | -                 | 215,388      | -                            | 3,063,342                |
| Net capital assets being depreciated  | 4,868,689               | -                 | (144,973)    | -                            | 4,723,716                |
| Net capital assets                    | \$ 4,878,660            | \$ -              | \$ (144,973) | \$ -                         | \$ 4,733,687             |

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

|                        |           |
|------------------------|-----------|
| General government     | \$ 17,555 |
| Public safety          | 71,022    |
| Public works           | 454,044   |
| Culture and recreation | 16,158    |

|                               |                   |
|-------------------------------|-------------------|
| Total governmental activities | <u>\$ 558,779</u> |
|-------------------------------|-------------------|

Business-type activities:

|                 |                   |
|-----------------|-------------------|
| Water and sewer | <u>\$ 215,388</u> |
|-----------------|-------------------|

### Note 6 - Interfund

Interfund transfers reported in the fund financial statements are comprised of the following:

|                          | Transfers Out |                          |                          |
|--------------------------|---------------|--------------------------|--------------------------|
|                          | General Fund  | Other Governmental Funds | Total Primary Government |
| Transfers in:            |               |                          |                          |
| General Fund             | \$ -          | \$ 9,872                 | \$ 9,872                 |
| Other governmental funds | 107,941       | 358,321                  | 466,262                  |
| Proprietary Fund         | -             | 21,605                   | 21,605                   |
| Total primary government | \$ 107,941    | \$ 389,798               | \$ 497,739               |

The City transfers funds raised by the tax millage from the Street Repairs & Maintenance Fund to the Major and Local Roads Funds to fund street repairs. The transfer from the Major Roads Fund to the debt service fund represents the movement of resources to be used to service major street fund debt. The General Fund transfers funds to the Capital Project Fund to finance future capital expenditures.

### Note 7 – Capital Leases

The City has entered into two lease agreements as lessee for financing the purchase of a police vehicle and a heavy-duty sewer truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

|                                 | Beginning<br>Balance | Additions | Reductions  | Ending<br>Balance | Due Within<br>One Year |
|---------------------------------|----------------------|-----------|-------------|-------------------|------------------------|
| <b>Governmental Activities</b>  |                      |           |             |                   |                        |
| Equipment lease payable         | \$ -                 | \$ 21,464 | \$ (8,393)  | \$ 13,071         | \$ 6,338               |
| <b>Business-type Activities</b> |                      |           |             |                   |                        |
| Equipment lease payable         | \$ 110,149           | \$ -      | \$ (26,008) | \$ 84,141         | \$ 26,950              |

The future minimum lease obligations and the net present value are as follows:

|      | Governmental Activities |                                    |                                       | Business-type Activities |                                    |                                       |
|------|-------------------------|------------------------------------|---------------------------------------|--------------------------|------------------------------------|---------------------------------------|
|      | Present<br>Value        | Amount<br>Representing<br>Interest | Total<br>Minimum<br>Lease<br>Payments | Present<br>Value         | Amount<br>Representing<br>Interest | Total<br>Minimum<br>Lease<br>Payments |
| 2005 | \$ 6,338                | \$ 817                             | \$ 7,155                              | \$ 26,950                | \$ 3,239                           | \$ 30,189                             |
| 2006 | 6,733                   | 421                                | 7,154                                 | 28,142                   | 2,047                              | 30,189                                |
| 2007 | -                       | -                                  | -                                     | 29,049                   | 1,127                              | 30,176                                |
|      | <u>\$ 13,071</u>        | <u>\$ 1,238</u>                    | <u>\$ 14,309</u>                      | <u>\$ 84,141</u>         | <u>\$ 6,413</u>                    | <u>\$ 90,554</u>                      |

### Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

|                                  | Beginning<br>Balance | Additions   | Reductions       | Ending Balance      | Due Within<br>One Year |
|----------------------------------|----------------------|-------------|------------------|---------------------|------------------------|
| <b>Governmental Activities</b>   |                      |             |                  |                     |                        |
| General obligation bonds:        |                      |             |                  |                     |                        |
| Michigan Transportation Bonds    | \$ 1,065,000         | \$ -        | \$ 65,000        | \$ 1,000,000        | \$ 70,000              |
| Accrued compensated absences     | <u>105,598</u>       | <u>-</u>    | <u>6,078</u>     | <u>99,520</u>       | <u>-</u>               |
| Total governmental activities    | \$ 1,170,598         | \$ -        | \$ 71,078        | \$ 1,099,520        | \$ 70,000              |
| <b>Business-type Activities</b>  |                      |             |                  |                     |                        |
| Revenue bonds -                  |                      |             |                  |                     |                        |
| Series 2000A State Revenue       |                      |             |                  |                     |                        |
| Sharing Bond                     | \$ 1,225,000         | \$ -        | \$ 40,000        | \$ 1,185,000        | \$ 5,000               |
| Revenue bonds -                  |                      |             |                  |                     |                        |
| Series 1997A State Revenue       |                      |             |                  |                     |                        |
| Sharing Bond                     | 245,000              | -           | 55,000           | 190,000             | 65,000                 |
| Total business-type activities   | <u>\$ 1,470,000</u>  | <u>\$ -</u> | <u>\$ 95,000</u> | <u>\$ 1,375,000</u> | <u>\$ 70,000</u>       |
| <b>Component Unit Activities</b> |                      |             |                  |                     |                        |
| State of Michigan CDBG Loan      | \$ 362,129           | \$ -        | \$ 97,848        | \$ 264,281          | \$ 26,428              |

During the year, the State of Michigan retroactively reduced the interest rate on this loan. The interest overpayment of \$72,557 was treated as a reduction of principal.

### Note 8 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above (governmental) bond and note obligations are as follows:

|             | Governmental Activities |                   |                     | Business-type Activities |                   |                     |
|-------------|-------------------------|-------------------|---------------------|--------------------------|-------------------|---------------------|
|             | Principal               | Interest          | Total               | Principal                | Interest          | Total               |
| 2005        | \$ 70,000               | \$ 52,092         | \$ 122,092          | \$ 100,000               | \$ 74,610         | \$ 174,610          |
| 2006        | 70,000                  | 48,558            | 118,558             | 110,000                  | 69,139            | 179,139             |
| 2007        | 80,000                  | 44,694            | 124,694             | 110,000                  | 63,322            | 173,322             |
| 2008        | 80,000                  | 40,493            | 120,493             | 50,000                   | 59,093            | 109,093             |
| 2009        | 85,000                  | 36,077            | 121,077             | 55,000                   | 56,349            | 111,349             |
| 2010 - 2014 | 495,000                 | 104,341           | 599,341             | 320,000                  | 233,300           | 553,300             |
| 2015 - 2019 | 120,000                 | 3,300             | 123,300             | 425,000                  | 127,838           | 552,838             |
| 2020 - 2021 | -                       | -                 | -                   | 205,000                  | 12,450            | 217,450             |
| Total       | <u>\$ 1,000,000</u>     | <u>\$ 329,555</u> | <u>\$ 1,329,555</u> | <u>\$ 1,375,000</u>      | <u>\$ 696,101</u> | <u>\$ 2,071,101</u> |

|             | Component Unit Activities |             |                   |
|-------------|---------------------------|-------------|-------------------|
|             | Principal                 | Interest    | Total             |
| 2005        | \$ 26,428                 | \$ -        | \$ 26,428         |
| 2006        | 26,428                    | -           | 26,428            |
| 2007        | 26,428                    | -           | 26,428            |
| 2008        | 26,428                    | -           | 26,428            |
| 2009        | 26,428                    | -           | 26,428            |
| 2010 - 2014 | <u>132,141</u>            | <u>-</u>    | <u>132,141</u>    |
| Total       | <u>\$ 264,281</u>         | <u>\$ -</u> | <u>\$ 264,281</u> |

### Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and property liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 10 - Pension Plan

**Plan Description** – The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent of gross wages.

**Annual Pension Cost** – For year ended June 30, 2004 the City's annual pension cost of \$0 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, including an inflation component of 4.5 percent (b) projected salary increases of 4.5 percent per year, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year depending on age, attributable to seniority/merit and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

### Note 10 - Pension Plan (Continued)

Three year trend information:

|   | Calendar Year Ended December 31        |              |              |
|---|--|--------------|--------------|
|   | 2001                                   | 2002         | 2003         |
| General Employees' Retirement System:   |  |              |              |
| Annual pension costs (APC)              | \$ -                                   | \$ -         | \$ -         |
| Percentage of APC contributed           | -                                      | -            | -            |
| Net pension obligation                  | \$ -                                   | \$ -         | \$ -         |
|   |  |              |              |
|   | Actuarial Valuation as of December 31: |              |              |
|   | 2001                                   | 2002         | 2003         |
| Actuarial value of assets               | \$ 6,008,953                           | \$ 5,939,789 | \$ 6,115,078 |
| Actuarial Accrued Liability (entry age) | 4,400,081                              | 4,378,109    | 4,723,873    |
| Overfunded ALL                          | 1,608,872                              | 1,561,680    | 1,391,205    |
| Funded ratio                            | 136.6%                                 | 135.7%       | 129.5%       |
| Covered payroll                         | 1,122,668                              | 1,154,599    | 1,020,862    |
| UAAL as a percentage of covered payroll | 143.3%                                 | 135.3%       | 136.3%       |

### Note 11 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Buchanan has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds

### Note 11 - Accounting and Reporting Change (Continued)

- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling approximately \$4,300,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at July 1, 2003 previously not reported in the General Fixed Assets Account Group have been adjusted by approximately \$3,800,000 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes long-term obligations totaling \$1,112,591 previously reported in the General Long-term Debt Account Group.

## Required Supplemental Information

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## City of Buchanan

### Required Supplemental Information Budgetary Comparison Schedule - General Fund June 30, 2004

|   | Original<br>Budget  | Amended<br>Budget   | Actual              | Variance with<br>Amended<br>Budget |
|---|---------------------|---------------------|---------------------|------------------------------------|
| <b>Fund Balance - Beginning of year</b>     | \$ 1,954,343        | \$ 1,954,343        | \$ 1,954,343        | \$ -                               |
| <b>Resources (Inflows)</b>                  |                     |                     |                     |                                    |
| Property taxes                              | 961,905             | 961,905             | 987,271             | 25,366                             |
| State sources                               | 730,836             | 730,836             | 695,527             | (35,309)                           |
| Fees and permits                            | 54,600              | 54,600              | 60,360              | 5,760                              |
| Fines and forfeitures                       | 6,050               | 6,050               | 3,963               | (2,087)                            |
| Charges for services                        | 46,450              | 46,450              | 74,295              | 27,845                             |
| Interest income                             | 52,500              | 52,500              | 30,890              | (21,610)                           |
| Other                                       | 99,650              | 99,650              | 127,371             | 27,721                             |
| Transfer from other funds                   | 19,000              | 19,000              | 9,872               | (9,128)                            |
| Transfer from component units               | 30,000              | 30,000              | 30,000              | -                                  |
| Amounts available for appropriation         | 2,000,991           | 2,000,991           | 2,019,549           | 18,558                             |
| <b>Charges to Appropriations (Outflows)</b> |                     |                     |                     |                                    |
| General government:                         |                     |                     |                     |                                    |
| City commission                             | 37,422              | 972,922             | 486,763             | 486,159                            |
| City manager                                | 118,717             | 112,267             | 116,783             | (4,516)                            |
| Elections                                   | 17,861              | 15,811              | 14,543              | 1,268                              |
| Assessor                                    | 30,550              | 30,550              | 29,509              | 1,041                              |
| City clerk                                  | 43,966              | 44,216              | 41,632              | 2,584                              |
| Treasurer                                   | 96,036              | 98,386              | 92,908              | 5,478                              |
| Building and grounds                        | 74,272              | 71,272              | 66,034              | 5,238                              |
| Building inspector                          | 41,957              | 40,207              | 37,835              | 2,372                              |
| Property rental                             | 6,250               | 6,250               | 6,394               | (144)                              |
| Other                                       | 69,858              | 69,858              | 59,145              | 10,713                             |
| Transfers to other funds                    | -                   | -                   | 10,000              | (10,000)                           |
| Transfers to component units                | 43,500              | 43,500              | 43,500              | -                                  |
| Public safety:                              |                     |                     |                     |                                    |
| Police                                      | 770,388             | 752,262             | 763,986             | (11,724)                           |
| Fire  | 135,531             | 129,781             | 78,161              | 51,620                             |
| Crossing Guards                             | 24,550              | 24,550              | 23,574              | 976                                |
| Transfers to other funds                    | -                   | -                   | 31,495              | (31,495)                           |
| Public works:                               |                     |                     |                     |                                    |
| Street maintenance                          | 435,058             | 420,553             | 371,171             | 49,382                             |
| Transfers to other funds                    | -                   | -                   | 66,446              | (66,446)                           |
| Culture and recreation:                     |                     |                     |                     |                                    |
| Parks and recreation                        | 40,457              | 37,957              | 30,982              | 6,975                              |
| Teen center                                 | 12,050              | 9,050               | 8,822               | 228                                |
| Total charges to appropriations             | 1,998,423           | 2,879,392           | 2,379,683           | 499,709                            |
| <b>Fund Balance - End of year</b>           | <b>\$ 1,956,911</b> | <b>\$ 1,075,942</b> | <b>\$ 1,594,209</b> | <b>\$ 518,267</b>                  |

## City of Buchanan

### Required Supplemental Information Budgetary Comparison Schedule – Front Street – Streetscape Fund June 30, 2004

|   | Original Budget  | Amended Budget   | Actual          | Variance with Amended Budget |
|---|------------------|------------------|-----------------|------------------------------|
| <b>Fund Balance</b> - Beginning of year     | \$ 62,225        | \$ 62,225        | \$ 62,225       | \$ -                         |
| <b>Resources (Inflows)</b>                  |                  |                  |                 |                              |
| Federal sources                             | -                | -                | 143,414         | 143,414                      |
| Interest income                             | -                | -                | 1,260           | 1,260                        |
| Amounts available for appropriation         | -                | -                | 144,674         | 144,674                      |
| <b>Charges to Appropriations (Outflows)</b> |                  |                  |                 |                              |
| Other                                       | -                | -                | 204,965         | (204,965)                    |
| <b>Fund Balance</b> - End of year           | <u>\$ 62,225</u> | <u>\$ 62,225</u> | <u>\$ 1,934</u> | <u>\$ 349,639</u>            |

### Note - Budgetary Information

**Budgetary Information** – The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The Budgetary Comparison Schedule – General Fund and the Budgetary Comparison Schedule – Front Street – Streetscape Fund are presented on the same basis of accounting used in preparing the adopted budget.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

## Other Supplemental Information

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# City of Buchanan

| Special Revenue Funds                |                   |                   |                                 |                         |                  |
|--------------------------------------|-------------------|-------------------|---------------------------------|-------------------------|------------------|
|                                      | Major<br>Roads    | Local<br>Roads    | Street Repairs<br>& Maintenance | Small Cities<br>Program | Housing Grant    |
| <b>Assets</b>                        |                   |                   |                                 |                         |                  |
| Cash                                 | \$ 16,023         | \$ 18,137         | \$ 2,929                        | \$ 297                  | \$ 1,767         |
| Investments                          | 235,883           | 144,692           | 90,833                          | 98,184                  | 13,851           |
| Receivables - Net                    | 808               | 809               | -                               | -                       | 1,837            |
| Due from other funds                 | 45,688            | 15,258            | -                               | -                       | 17,952           |
| Total assets                         | <b>\$ 298,402</b> | <b>\$ 178,896</b> | <b>\$ 93,762</b>                | <b>\$ 98,481</b>        | <b>\$ 35,407</b> |
| <b>Liabilities and Fund Balances</b> |                   |                   |                                 |                         |                  |
| <b>Liabilities</b>                   |                   |                   |                                 |                         |                  |
| Accounts payable                     | \$ 1,991          | \$ 359            | \$ -                            | \$ -                    | \$ 17,952        |
| Accrued and other liabilities        | 3,404             | 3,205             | -                               | -                       | -                |
| Deferred revenue                     | -                 | -                 | -                               | -                       | 17,455           |
| Total liabilities                    | 5,395             | 3,564             | -                               | -                       | 35,407           |
| <b>Fund Balances</b>                 | 293,007           | 175,332           | 93,762                          | 98,481                  | -                |
| Total liabilities and fund balances  | <b>\$ 298,402</b> | <b>\$ 178,896</b> | <b>\$ 93,762</b>                | <b>\$ 98,481</b>        | <b>\$ 35,407</b> |

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

| Debt Service Funds                                   |  | Nonexpendable<br>Trust Fund |   |
|--|--|-----------------------------|---|
| Michigan<br>Transportation<br>Act 175 -<br>1991/1993 | Michigan<br>Transportation<br>Act 175 - 2000 | Cemetery<br>Perpetual Care  | Total Nonmajor<br>Governmental<br>Funds |
| \$ 288   | \$ 593                                       | \$ 5,158                    | \$ 45,192                               |
| -  | 11,554                                       | 301,076                     | 896,073                                 |
| -  | -  | 231                         | 3,685                                   |
| -  | -  | -                           | 78,898                                  |
| <b>\$ 288</b>  | <b>\$ 12,147</b>                             | <b>\$ 306,465</b>           | <b>\$ 1,023,848</b>                     |
|  |  |                             |   |
| \$ -   | \$ -   | \$ -                        | \$ 20,302                               |
| -  | -  | -                           | 6,609                                   |
| -  | -  | -                           | 17,455                                  |
| -  | -  | -                           | 44,366                                  |
| 288  | 12,147                                       | 306,465                     | 979,482                                 |
| <b>\$ 288</b>  | <b>\$ 12,147</b>                             | <b>\$ 306,465</b>           | <b>\$ 1,023,848</b>                     |

# City of Buchanan

|   | Special Revenue Funds |                   |                                 |                         |               |
|---|-----------------------|-------------------|---------------------------------|-------------------------|---------------|
|   | Major<br>Roads        | Local<br>Roads    | Street Repairs<br>& Maintenance | Small Cities<br>Program | Housing Grant |
| <b>Revenue</b>  |                       |                   |                                 |                         |               |
| Property taxes  | \$ -                  | \$ -              | \$ 278,752                      | \$ -                    | \$ -          |
| Federal sources   | -                     | -                 | -                               | -                       | 180,272       |
| State sources   | 269,161               | 105,125           | -                               | -                       | -             |
| Interest income   | 2,557                 | 2,473             | 2,311                           | 1,075                   | -             |
| Other   | 2,487                 | 2,486             | -                               | -                       | 110,224       |
| Total revenue   | 274,205               | 110,084           | 281,063                         | 1,075                   | 290,496       |
| <b>Expenditures</b>   |                       |                   |                                 |                         |               |
| Routine street maintenance  | 66,008                | 58,242            | 716                             | -                       | -             |
| Tree and shrub maintenance  | 41,312                | 42,730            | -                               | -                       | -             |
| Drainage  | 15,855                | 13,772            | -                               | -                       | -             |
| Traffic service maintenance   | 19,359                | 13,773            | -                               | -                       | -             |
| Winter maintenance  | 42,715                | 20,910            | -                               | -                       | -             |
| Administrative  | 12,976                | 12,976            | -                               | -                       | -             |
| Other   | -                     | -                 | -                               | 5,000                   | 290,496       |
| Debt service  | -                     | -                 | -                               | -                       | -             |
| Total expenditures  | 198,225               | 162,403           | 716                             | 5,000                   | 290,496       |
| <b>Excess of Revenue Over (Under) Expenditures</b>  | 75,980                | (52,319)          | 280,347                         | (3,925)                 | -             |
| <b>Other Financing Sources (Uses)</b>   |                       |                   |                                 |                         |               |
| Transfers in  | 121,783               | 116,119           | -                               | -                       | -             |
| Transfers out   | (120,419)             | -                 | (264,507)                       | -                       | -             |
| Transfers to component units  | (42,859)              | -                 | -                               | -                       | -             |
| Total other financing sources (uses)  | (41,495)              | 116,119           | (264,507)                       | -                       | -             |
| <b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b> | 34,485                | 63,800            | 15,840                          | (3,925)                 | -             |
| <b>Fund Balances - Beginning of year</b>  | 258,522               | 111,532           | 77,922                          | 102,406                 | -             |
| <b>Fund Balances - End of year</b>  | <u>\$ 293,007</u>     | <u>\$ 175,332</u> | <u>\$ 93,762</u>                | <u>\$ 98,481</u>        | <u>\$ -</u>   |

# City of Buchanan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2004

| Debt Service Funds                          |  | Nonexpendable Trust     |                                   |
|---|--|-------------------------|-----------------------------------|
| Michigan Transportation Act 175 - 1991/1993 | Michigan Transportation Act 175 - 2000 | Cemetery Perpetual Care | Total Nonmajor Governmental Funds |
| \$ -  | \$ -                                   | \$ -                    | \$ 278,752                        |
| -   | -                                      | -                       | 180,272                           |
| -   | -                                      | -                       | 374,286                           |
| 23  | 143                                    | 3,115                   | 11,697                            |
| -   | -                                      | 10,127                  | 125,324                           |
| 23  | 143                                    | 13,242                  | 970,331                           |
| -   | -                                      | -                       | 124,966                           |
| -   | -                                      | -                       | 84,042                            |
| -   | -                                      | -                       | 29,627                            |
| -   | -                                      | -                       | 33,132                            |
| -   | -                                      | -                       | 63,625                            |
| -   | -                                      | -                       | 25,952                            |
| -   | -                                      | 63,013                  | 358,509                           |
| 80,245                                      | 40,749                                 | -                       | 120,994                           |
| 80,245                                      | 40,749                                 | 63,013                  | 840,847                           |
| (80,222)                                    | (40,606)                               | (49,771)                | 179,255                           |
| -   | -                                      | -                       | -                                 |
| 79,945                                      | 40,474                                 | -                       | 358,321                           |
| -   | -                                      | (4,872)                 | (389,798)                         |
| -   | -                                      | -                       | (42,859)                          |
| 79,945                                      | 40,474                                 | (4,872)                 | (74,336)                          |
| -   | -                                      | -                       | -                                 |
| (277)                                       | (132)                                  | (54,643)                | 55,148                            |
| 565   | 12,279                                 | 361,108                 | 924,334                           |
| <b>\$ 288</b>                               | <b>\$ 12,147</b>                       | <b>\$ 306,465</b>       | <b>\$ 979,482</b>                 |

# City of Buchanan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2002

|                                    | Agency Funds        |                  |                          |                   |
|------------------------------------|---------------------|------------------|--------------------------|-------------------|
|                                    | Trust and<br>Agency | Tax Collection   | Repair and<br>Demolition | Totals            |
| <b>Assets</b>                      |                     |                  |                          |                   |
| Cash and investments               | <u>\$ 56,595</u>    | <u>\$ 46,805</u> | <u>\$ 144</u>            | <u>\$ 103,544</u> |
| <b>Liabilities and Net Assets</b>  |                     |                  |                          |                   |
| <b>Liabilities</b>                 |                     |                  |                          |                   |
| Accounts payable                   | \$ 56,595           | \$ -             | \$ -                     | \$ 56,595         |
| Due to others                      | -                   | 46,373           | -                        | 46,373            |
| Due to other governmental<br>units | -                   | 432              | -                        | 432               |
| Other liabilities                  | <u>-</u>            | <u>-</u>         | <u>144</u>               | <u>144</u>        |
| Total liabilities                  | <u>\$ 56,595</u>    | <u>\$ 46,805</u> | <u>\$ 144</u>            | <u>\$ 103,544</u> |

## List of fields to be inserted throughout report:

| Bookmark name  | Values<br>(Hit [Insert] [Field], Choose 'Ref', 'Options'; Select the bookmark name, then select switch "\h")   |
|--|--|
| <b>Name</b>  | City of Buchanan   |
| <b>Name Formal</b>                                     | City of Buchanan, Michigan (See directions below:)   |
| <b>NamePossesive</b>                                   | City of Buchanan's   |
| <b>ShortName</b>                                       | City   |
| <b>ShortNamePossesive</b>                              | City's   |
| <b>Year End</b>  | June 30, 2004  |
| <b>Prior Year</b>                                      | June 30, 2003  |
| <b>Opinion Date</b>                                    | October 8, 2004  |
|  |  |
| <b>Examples of how to use the "Name Formal" field:</b> | <p>Cities, Villages &amp; Counties:</p> <p><b>City of Sample, Michigan</b></p> <p>Townships:</p> <p><b>Charter Township of Sample,<br/>Sample County, Michigan</b></p> |

Use [Shift] [Enter] to create the new line



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Members of the City Commission  
City of Buchanan  
Buchanan, Michigan 49107

We recently completed the audit of the financial statements of the City of Buchanan for the year ended June 30, 2004. In connection with our audit, we offer the following comments and recommendations.

## **FINANCIAL OVERVIEW**

During the year ended June 30, 2004, the City experienced a decrease in General Fund fund balance of approximately \$360,000. General Fund expenditures were \$500,000 less than budgeted. In addition, revenue was \$19,000 more than budgeted. On the whole, the City's other governmental funds performed strongly. Fund balance increased by a total amount of \$94,000 across these funds combined. Overall, the City's Governmental Fund Net Assets remain strong and total a healthy \$8.56 million. We compliment you, as City management, on your sound budgeting practices and planning processes. By maintaining a strong fund balance, the City is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

## **WATER AND SEWER FUND**

While the Governmental Funds performed well, we continue to encourage the City to pay close attention to the Water and Sewer Fund. This fund incurred a \$95,000 loss from operations. Net non-operating expenses added another \$7,000 to the operating loss for a total loss of \$102,000. As of June 30, 2004, these losses have eroded the cash and investment position of this fund to a level slightly below next year's debt service requirements, which is the funding level called for in the City's bond documents. We recommend the City examine the operations of this fund, including rates currently being charged, to strengthen the position of this fund. We understand that a rate study is in process.

## **NEW REPORT FORMAT**

As you are probably aware, the format of this year's financial statements looks slightly different than in years past. During 2003/2004, the City adopted the requirements of the new Governmental Accounting Standard Board Standard #34. Most noticeably, your financial statements begin with a new section, Management Discussion and Analysis. Other changes involve the equity portion of the Statement of Net Assets, format changes to both the Statement of Net Assets and Statement of Cash Flows, and several changes to the Notes to Financial Statements. We would be happy to discuss these changes further at your convenience.

## **OMB CIRCULAR A133**

The OMB has recently passed a ruling which increases the threshold for requiring a single audit of federal funds from the current level of \$300,000 to \$500,000. However, the City anticipates federal grant expenditures near the \$500,000 threshold for fiscal 2005. We encourage the City's management to monitor expenditures and track grant information carefully in preparation for the possibility of a required A-133 audit for fiscal 2005.

## **OLD OUTSTANDING CHECKS**

During our testing of the June 30, 2004 bank reconciliation, we noted several old outstanding checks from previous years. We recommend that the City consider following up on these checks and making appropriate adjustments.

## **INTERFUND TRANSFERS**

We noted that in some instances interfund transfers pass through on "intermediate" fund before ending up in the fund of destination. An example of this is transfers from Street Repair and Maintenance to the Brownfield Fund that first flow through Major or Local Streets. We recommend that these transfers be made directly for two reasons. The first is that it reduces administrative time to complete and record the transaction. Second, especially related to the Street funds, Act 51 dollars should not be used outside of these funds except to service street debt. Showing transfers to other funds (even though it doesn't represent Act 51 dollars) could generate uninvited scrutiny from the State.

## **STATE SHARED REVENUE**

State shared revenue accounts for approximately 35% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

## STATE SHARED REVENUE (Continued)

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

| State Fiscal Year | Statutory  | Constitutional | Total      | Increase (Decrease)<br>from 2000 |
|-------------------|------------|----------------|------------|----------------------------------|
| 2000              | \$ 502,588 | \$ 338,529     | \$ 841,117 | \$ -                             |
| 2001              | \$ 535,763 | \$ 303,761     | \$ 839,524 | \$ 1,593                         |
| 2002              | \$ 492,652 | \$ 306,854     | \$ 799,506 | \$ (40,018)                      |
| 2003              | \$ 436,891 | \$ 312,049     | \$ 748,940 | \$ (50,566)                      |
| 2004              | \$ 364,452 | \$ 308,660     | \$ 673,112 | \$ (75,828)                      |

We will continue to update the City as developments occur.

## PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

|      |      |
|------|------|
| 2004 | 2.3% |
| 2003 | 1.5% |
| 2002 | 3.2% |
| 2001 | 3.2% |
| 2000 | 1.9% |
| 1999 | 1.6% |
| 1998 | 2.7% |
| 1997 | 2.8% |
| 1996 | 2.8% |
| 1995 | 2.6% |
| 1994 | 3.0% |

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

## PROPERTY ASSESSMENT CAP (Continued)

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its

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property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 19.2590 mills even though City Charter would allow the City to levy 20.0000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

## **HEALTH CARE COSTS**

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

## **FINANCIAL RECORDS**

We would once again like to commend the City Manager, Treasurer, and accounting department on the excellent condition of the accounting records. Their attention to detail and desire to provide timely, accurate information is commendable. As a result of their efforts, the audit went smoothly.

We appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

October 8, 2004

*Plante & Moran, PLLC*